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KAUAI NEWS

Lingle approves ethanol rules

By Phil Hayworth - The Garden Island

NUKOLI'I - It's official! Ethanol production is coming to Kaua'i.

Republican Gov. Linda Lingle yesterday signed off on new state administrative rules that officially allow for the start of an ethanol industry in Hawai'i.

The rules mandate that at least 85 percent of Hawai'i's gasoline contain 10 percent ethanol beginning in April 2006.

"This is what we've been waiting for," said Alan Kennett, president of Makaweli-based Gay & Robinson Inc., the island's last sugar company.

Yesterday's signing was the centerpiece of the governor's luncheon address before the Kaua'i Chamber of Commerce at the Radisson Kauai Beach Resort. Passage of the rules now means that Gay & Robinson leaders can implement plans to build the first of two ethanol-production facilities here on Kaua'i.

The first plant planned is a small, experimental facility to be built on Gay & Robinson land at Makaweli by Worldwide Energy Group, which plans to produce ethanol from bagasse, a sugar-grinding byproduct used for years on Kaua'i to create electricity prior to the closing of Lihue Plantation.

If that goes well, Kennett said, a second, much-larger facility is to be built on Gay & Robinson land with \$50 million in state special purpose revenue bonds. Molasses will be used to produce ethanol. Some of the ethanol from that plant will go to mix with gas for cars and trucks, and some will be used for energy to actually run the plant.

Kennett believes Gay & Robinson should be able to produce some 7 million gallons of ethanol from existing raw materials on Kaua'i within 18 months.

If all goes well, Kennett believes that Gay & Robinson could produce some 15 million gallons of ethanol annually.

Ultimately, Kennett and industry analysts believe ethanol production here could double Gay & Robinson's annual revenue to somewhere around \$50 million, and help save some 300 jobs, while directly creating 176 new jobs, and indirectly creating 623 more.

It would effectively save the company as a whole, Kennett said.





"Without this, the likelihood of being able to stay in business is extremely threatened," Kennett said. "It still is."

Kennett said that two factors are keeping ethanol proponents here watchful and wary: the low prices for sugar on the world market, which threaten his business, and the still relatively low price of gasoline at the pump.

"If gas gets to \$3 per gallon," Kennett said, then all of Gay & Robinson's sugar and sugar byproducts will be used to produce ethanol.

But until then, he warned, only a part of Gay & Robinson's sugar production will go toward ethanol. The rest will be sold as sugar to California-based C&H.

"Right now, we get more money from sugar," he said.

Last year, 98 percent of Gay & Robinson's \$24.1 million in gross revenues came from its 57,000 bulk tons of processed sugar.

According to Ted Liu, director of the state Department of Business, Economic Development and Tourism, it is estimated that at least 40 million gallons of ethanol per year will be required by Hawai'i's two petroleum refineries to meet the ethanol-gas-mix mandate.

Studies have pegged Hawai'i's ethanol production potential at 90 million gallons per year in the short-term, and over 400 million gallons per year as a mature industry, Liu said.

But Kennett said Gay & Robinson might find themselves short of raw material in the beginning, forcing them to buy molasses on the open market and importing it to Kaua'i, where it will be turned into ethanol, particularly if sugar remains more profitable than ethanol. As oil prices go up, ethanol becomes more profitable, and more raw resources will be allocated to its production, he said.

Ideally, there will be three companies annually producing at least 40 million gallons of ethanol within 18 months: one on Maui, one on Kaua'i, and one on O'ahu.

According to a report from BBI International Consulting done on behalf of DBEDT, the initial economic impact during construction of all three facilities will generate \$253 million statewide, with about \$80 million right here on Kaua'i. Another \$82 million in personal wealth will be generated statewide during the first year of construction, with \$25 million of that on Kaua'i.

At least \$5.1 million in personal wealth is expected to be generated each year thereafter.

The new rules, which were developed by the DBEDT after a public hearing held in August, exempts Hawai'i's two petroleum refineries from the blending rule if Hawai'i's ethanol producers cannot meet certain quotas within 18 months, or if they cannot produce competitively priced ethanol.

"Hawai'i is one of a handful of states without ethanol fuel use or production, yet study after study has shown that Hawai'i has the potential to produce fuel for use locally as well as for export," Liu said.

Ethanol-blended fuels are used in 40 states, and are approved for use by all automakers.

It is estimated that 30 percent of all gasoline used in the United States this year will be blended with ethanol.

In many areas of California, Connecticut, New York, Minnesota, and other states, a significant portion of the gasoline contains ethanol.

For more information on ethanol as a fuel additive or details on the new regulations, contact the state's ethanol rules office at ethanolrules@dbedt.hawaii.gov or view the ethanol Web page at www.Hawaii.gov/dbedt/ert/ethanol.html.

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